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No. 88-503

IN THE

Supreme Court of the United States

OCTOBER TERM, 1988

LEGO SYSTEMS, INC. and INTERLEGO, A.G.,

Petitioners,

vs.

TYCO INDUSTRIES, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

PETITIONERS' REPLY BRIEF IN SUPPORT OF PETITION FOR CERTIORARI

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INTRODUCTION

Respondent ("Tyco") in effect argues that this Court ought not review this case because Petitioners ("Lego") would have lost even if the correct legal standards had been applied. Respondent's analysis of the factual findings below, on which its arguments rest, is incorrect and, therefore, Tyco presents no valid reason for this Court to defer the urgently-needed exposition of uniform legal principles in this ever more frequently encountered area of federal law.

POINT I

THE FINDINGS OF FACT ON ALTERNATIVE CONFIGURATIONS, ON WHICH RESPONDENT RESTS, REFLECT THE ADOPTION OF A LEGALLY INCORRECT DEFINITION OF COMPETITION BY THE COURTS BELOW

Respondent argues that this Court should not review the decision below because the District Court found that the Lego configuration was superior in cost or quality to alternatives presented and was "the obvious engineering choice." Tyco asserts that these findings were "global" in nature, *i.e.*, the District Court found as a fact that the Lego configuration is superior to that of *all* other blocks – whether or not they work with Lego blocks – and that the Lego stud and tube system is superior to *all* other means of connecting such blocks. No such global finding was made.

The District Court's statements on the superiority of the Lego studs and tubes related *only* to those blocks Lego presented as blocks that could connect to Lego blocks and still look different, not to alternatives available to all block makers generally. This will be fully demonstrated in the briefs on the merits. In fact, however, Respondent never raised the issue of overall superiority and did not try it.

At pages 24 and 90 of the Pre-trial Order (Docket No. 26, not in Appendix) Tyco asserted only two grounds to support its position that the Lego block shape was functional: that all its features are useful or serve a purpose in a block (reflecting the Third Circuit, "weighing the utility" test, adopted and applied below) and that there are few, if any, alternative configurations that *would work with the Lego block* available to competitors (the incorrect intra-brand competition test). Tyco never even raised the issue of overall superiority.

Moreover, Tyco never tried that issue. At trial, Tyco's counsel *conceded* that blocks that would connect to each other but would not connect to Lego could be made, and admitted that such

blocks were not part of its case. The following statement of Respondent's counsel appears at pages 2904-05 of the trial transcript.

> So with that combination of circumstances, Tyco maintains it was necessary to build a block *that works with LEGO* if it wasn't going to be shut out of the market that LEGO had developed in the United States with a patent and with 20 years or more of intense promotion, advertising and sales, enormous.
>
> • • • •
>
> Now, Mr. Zelnick [Lego's counsel], until he started presenting evidence today, I understood to be saying there's other ways to make a block that worked with LEGO that would constitute alternate configurations under his theory of the law, okay? I didn't ever understand it was part of the case that it's possible to make systems that are totally independent of LEGO. I think everybody—*that's conceded*. If that's what Mr. Zelnick is trying to pursue, *that's conceded*. (emphasis added).

Until its brief in the Court of Appeals, Tyco never once asserted that the Lego configuration was superior to *all*, or even *any* other blocks that do not connect to Lego. In fact, Tyco's counsel objected on the grounds of relevance (Tr. at 2899) to Lego's proffer of evidence of the drawbacks in the Lego configuration and evidence of dozens of other ways to make blocks that connect to each other by different means, and that achieve an equally good or better product.

Mr. Martin, Tyco's expert, also repeatedly made clear that Tyco did not even ever consider alternatives that did not connect to Lego blocks. The following is an example of such testimony:

> Q. Mr. Martin, you heard Mr. Moller testify that there were different systems, as he called them, which could be used to achieve the objective of working with itself

and *also working with LEGO as well as Tyco does now.*

A. Yes.

Q. Have you formed any opinions or conclusions regarding the proposed systems as set forth in the Moller Report [Ex. D-1] and illustrated by *some of* the blocks here?

A. Yes, I have, but could I explain it in my own way?

Q. Please.

A. Your Honor, there are two aspects that we must consider in designing a block that will work with itself and work with LEGO. The main exercise here is not making a block that simply fits well with itself and is a quality block. The main difficulty here is making it work with LEGO.

To make it work with LEGO...

* * *

So you're trying to – the trick here, I mean, *the LEGO system requires* the blocks to be molded to what I call exacting tolerances, and those tolerances, you must have strict control over the molding....

Tr. at 3376, 3378. (Emphasis added).

All of Mr. Martin's testimony related to those difficulties, and none related to problems in making other blocks *per se*.

There was thus no evidence on which the Court could have found that the Lego system was superior to *all* other systems. Rather, what the District Court held was that of all of the systems that connect to Lego the configuration that connects best with Lego is the Lego shape itself. The District Court's

reference to the round tubes as being "the obvious engineering choice" related to the fact that Lego already had studs on the top of its block in 1958, when it added the tubes in the underside of the blocks. Whether or not the District Court was correct in holding that round tubes were the obvious choice in the context of *that pre-1958 block*, the District Court never found that round tubes would be an obvious engineering choice were one designing a block from scratch, without regard to compatibility with Lego.[1]

A District Court decision is reviewable not only if the factual findings are clearly erroneous, but also if the court failed to apply the correct legal standards. *Yarmuth-Dion, Inc. v. D'ion Furs, Inc.*, 835 F.2d 990, 994 (2d Cir. 1987); *Vitarroz Corp. v. Borden, Inc.*, 644 F.2d 960, 968 (2d Cir. 1981). In focusing only on blocks that connect to Lego blocks, the District Court applied the wrong legal standard. It should have looked instead at whether the Lego system was superior to all or substantially all other systems and, if so, whether use of the Lego system required copying the appearance of the Lego block. It manifestly made no such findings. Accordingly, its decision and that of the Third Circuit, which adopted it wholesale, are subject to review.

POINT II

TYCO'S BRIEF DEMONSTRATES THAT THE CIRCUITS ARE NOT APPLYING A UNIFORM RULE OF FEDERAL LAW OF FUNCTIONALITY

As Respondent correctly points out (Brief, p. 6) the Court below "commenced" its examination of the law of functionality by adopting the current Third Circuit "utility balancing test", citing *United States Golf Ass'n. v. St. Andrews Systems*, 749 F.2d 1028, 1033 (3d Cir. 1984) and *American Greetings Corp. v.*

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[1] Even if it were to be assumed that the finding related to studs and tubes generally, critically the Court never found that the size, location and height of the Lego studs were superior. The issue here is the need to reproduce the appearance of Lego's block, not the need to use the principles underlying Lego's mechanical system.

Dan-Dee Imports, Inc., 807 F.2d 1136, 1142 (3d Cir. 1986). The District Court then held the Lego brick to be wholly functional "[a]pplying *these* principles to the evidence in this case" (A-35) (Emphasis added).

Tyco's cavils to the contrary notwithstanding, therefore, it is clear beyond doubt that the Courts below applied a test of functionality which focuses *not* on the effect that protecting the configuration trademark would have on competitors, but rather upon the degree of usefulness of the shape compared to its origin-indicating value. Tyco does not assert, as it cannot, that the Court applied the test of functionality this Court enunciated in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 850 n.10 (1982).[2]

The need for clarification of the rule to be applied is, however, well illustrated by Respondent's citation, at p. 8, to *Stormy Clime Ltd. v. Progroup, Inc.*, 809 F.2d 971, 977 (2d Cir. 1987), in which one panel of the Second Circuit held that "unique arrangements of purely functional [utilitarian] features constitute a functional design." Yet in *Brandir International, Inc. v. Cascade Pacific Lumber Co.*, 834 F.2d 1142, 1148 (2d Cir. 1987), a different panel of the same Court in the same year, reflecting the same conflicts as exist among the Circuits, held a bicycle rack *not* functional despite a finding that "the design feature of the Ribbon Racks is clearly dictated by the function to be performed, namely, holding up bicycles," i.e., the design was "purely functional" in the same utilitarian sense.

Tyco's citation, at p. 13 of *Ideal Toy Corp. v. Plawner Toy Mfg. Corp.*, 685 F.2d 78, 81 (3d Cir. 1982); *Keene Corp. v. Paraflex Industries, Inc.*, 653 F.2d 822, 827 (3d Cir. 1981) and *Time Mechanisms, Inc. v. Qonaar Corp.*, 422 F. Supp. 905, 913 (D.N.J. 1976), for the assertion that the Third Circuit applies an alternative configuration standard, like other circuits, is

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[2] Indeed, at p. 15 of its brief Respondent postulates a wholly new test, unsupported by either citation or reason, to wit, whether the features are "efficient, cost effective or otherwise desirable." No Court has enunciated such a test, which totally ignores *Inwood* and the underlying reasons for the rule, pointed out in the petition.

disingenuous. Each of those cases predated *U.S.G.A.*, *supra*, and *American Greetings*, *supra*, which set out the value balancing test applied below in this case.

POINT III

THE DISTRICT COURT'S HOLDING ON CONFUSION NEED NOT BE REVIEWED

In its final point, Respondent asserts, "[t]he confusion issue has not been raised in the Petition. Therefore, the judicial determination that the Record presented insufficient evidence of confusion is now final." Brief, p. 17.

Respondent then neatly switches from speaking of a finding of "confusion" to a finding of "likelihood of confusion." There is no dispute that the correct legal test is *likelihood* of confusion. The difficulty with Respondent's argument, however, is that the District Court did *not* make *any* finding on *likelihood* of confusion. In its brief in the Third Circuit, Respondent characterized this failure of the District Court as a "slip of the pen." Now respondent has transmogrified it into a finding of no likelihood of confusion. No such finding was ever made, apparently because either the District Court felt its ruling on functionality made it unnecessary to reach that issue, or because it believed that Petitioners had to prove actual confusion.[3]

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[3] The entire holding of the Court below on confusion is that the Lipstein survey submitted by Lego was "not conclusive evidence of confusion between Tyco and Lego blocks in the marketplace," and that there was therefore "insufficient evidence of confusion." Lego, however, was not required to demonstrate by "conclusive" evidence that confusion between the Tyco and Lego products was occurring. Rather, like any party in civil litigation, Lego was required only to prove a likelihood of confusion by a preponderance of the evidence. *American Home Products Corp. v. Barr Laboratories, Inc.*, 834 F.2d 368, 371 (3d Cir. 1987).

Moreover, Lego was not required to demonstrate that there was "confusion" between Tyco and Lego blocks "in the marketplace." Rather, Lego was required to demonstrate only that there was a likelihood of such confusion, either in the "marketplace" or post-sale.

The clearly erroneous rule does not apply to conclusions of law or to findings of fact made on an incorrect understanding of the law. The clearly erroneous standard does not deprive the federal appellate courts of the duty to reverse erroneous results where the legal basis of the District Court's factual finding is in error. *Yarmuth-Dion, Inc. v. D'ion Furs, Inc.*, 835 F.2d 990, 994 (2d Cir. 1987), *Vitarroz Corp. v. Borden, Inc.*, 644 F.2d 960, 968 (2d Cir. 1981) ("Our function is not to consider the issues *de novo*, but to be sure the District Court applied the correct legal standard and correct criteria to findings that are not clearly erroneous.")

Since the District Court failed to make any finding whatsoever on *likelihood* of confusion, the correct legal test, there is no reason to raise that issue in this Court. Manifestly, because the courts below were in error on the law of functionality, the case should be remanded with instructions to make appropriate findings of fact on all issues.

Respectfully Submitted,

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